

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02 OPIC-03
CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 /088 W
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R 161910Z FEB 77
FM AMEMBASSY PANAMA
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E.O. 11652: N/A
TAGS: EIND, PN
SUBJECT: BEER PRICE ROLLBACK

SUMMARY: LOCAL TABLOID "CRITICA" HAS DECLARED VICTORY IN ITS TWO-WEEK CAMPAIGN TO FORCE PANAMA'S BREWERIES TO ROLL BACK PRICE INCREASES INTRODUCED IN EARLY JANUARY. CAMPAIGN WAS BASED ON THE THREAT, NEVER OFFICIALLY CONFIRMED, THAT THE GOP WOULD PERMIT TAX-FREE IMPORTATION OF BEER IN ORDER TO PROVIDE SUFFICIENT SUPPLIES AT REASONABLE PRICES FOR CARNIVAL. ROLLBACK WAS ANNOUNCED AFTER MEETINGS BETWEEN GOVERNMENT OFFICIALS AND BREWERS. GOP AGREED, IN TURN, TO LOWER BOTH ITS TAX ON BEER PRODUCTION AND THE IMPORT DUTIES ON RAW MATERIALS USED BY THE BREWERIES. END SUMMARY.

1. LOCAL BREWERIES KICKED OFF THE NEW YEAR BY ANNOUNCING A 42 PERCENT INCREASE IN THE PRICE OF BEER. THE BREWERIES BASED THE INCREASE ON THE GOVERNMENT'S TAX OF 34 CENTS/CASE THAT WENT INTO EFFECT JANUARY 1, AND ON THE HIGHER COSTS OF OPERATION RESULTING FROM INCREASES IN WAGES, PRICE OF RAW MATERIALS, AND UTILITY RATES, NOTING THAT BEER PRICES HAD NOT BEEN INCREASED SINCE 1972. INITIAL MEDIA REACTION TO THE PRICE HIKE WAS MUTED, AN UNDERSTANDABLE REACTION SINCE
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THE PUBLIS WAS STILL TRYING TO DIGEST THE GOP'S NEW YEAR AUSTERITY PROGRAM. COMMENTARY RANGED FROM OBSERVATIONS ABOUT THE IMPORTANT CONTRIBUTIONS OF THE BREWING INDUSTRY TO THE NATIONAL ECONOMY TO GENTLE REMONSTRANCES THAT PRICE INCREASES OF THIS MAGNITUDE COULD BE CONSIDERED AS PROFITTING. CONSUMER REACTION WAS LESS AMBIGUOUS--BEER SALES DECLINED 40 PERCENT DURING THE MONTH OF JANUARY.

2. ON FEBRUARY 2 "CRITICA" HEADLINED THE REPORT CITING RELIABLE GOVERNMENT SOURCES, THAT THE GOP WOULD REMOVE ALL DUTIES ON IMPORTED BEER IN AN EFFORT TO ENSURE AN ADEQUATE SUPPLY OF THE BEVERAGE AT REASONABLE PRICES FOR THE UPCOMING CARNIVAL HOLIDAY. THE ARTICLE STRONGLY CRITICIZED THE BREWERIES, NOTING THAT THE GOP TAX WAS ONLY 34 CENTS/CASE WHEREAS THE BREWERY PRICE HAD BEEN INCREASED FROM 3.60/CASE TO 5.10/CASE. THE OTHER PRO-GOP ERSA DAILIES, "MATUTINO" AND "LA REPUBLICA" JOINED THE FRAY AS CONSUMER ADVOCATES, WHILE SEMI-INDEPENDENT "LA ESTRELLA" WORRIED ABOUT THE POSSIBILITY OF SETTING A PRECEDENT FOR UNILATERAL PUNITIVE ACTION AGAINST PANAMANIAN PRIVATE INDUSTRY. THE CHAMBER OF COMMERCE WARNED THAT SUCH ACTION WOULD NULLIFY THE GOP'S ATTEMPTS TO RESTORE INVESTOR CONFIDENCE IN THE ECONOMY, NOTING THAT THE BREWERIES' RETURN ON INVESTMENT HAD DECLINED PRECIPITOUSLY DURING THE PAST THREE YEARS. FULL PAGE NEWSPAPER ADVERTISEMENTS RUN BY THE BREWERIES PRESENTED TABULATIONS DEMONSTRATING THEIR DECLINING PROFIT MARGINS. "CRITICA" COUNTERED BY REPORTING THAT PLANS WERE BEING FINALIZED FOR A LARGE SHIPMENT OF CANNED BEER TO ARRIVE IN TIME FOR CARNIVAL.

3. THE GOP ISSUED NO PUBLIC STATEMENTS CONCERNING THE REPORTED CHANGE IN THE STATUS OF BEER IMPORTS, INSTEAD ALLOWING THE PROTAGONISTS TO ALTERNATE IN TILTING AT THE WINDMILL THAT IT HAD CAUSED TO BE ERECTED. SUBSEQUENTLY REPRESENTATIVES OF THE TREASURY MINISTRY APPROACHED THE BREWERIES TO DISCUSS THE DISPUTE. AN AGREE-LIMITED OFFICIAL USE

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MENT WAS WORKED OUT WHEREBY THE BREWERIES WOULD LOWER THE PRICE OF BEER FROM 5.10 TO 4.50 PER CASE IN RETURN FOR THE GOVERNMENT'S PROMISE TO REDUCE THE TAX ON BEER AND THE DUTY ON RAW MATERIALS USED IN THE BREWING PROCESS. THE BREWERIES WILL BE ABLE TO MAKE A REASONABLE PROFIT AT THIS PRICE LEVEL, BUT THEY HAVE LOST SOME OF THE CUSHION FOR INCREASED OPERATING COSTS THAT WAS BUILT INTO THE HIGHER PRICE. ALTHOUGH "CRITICA" IS CLAIMING A GREAT VICTORY IN BEHALF OF THE WORKING CLASSES AND CONSUMERS, IT MAY YET TURN OUT TO BE THE REAL LOSER--THE BREWERIES HAVE CANCELLED THEIR ESTIMATED \$6000/MONTH ADVERTISING PROGRAM IN THE PAPER UNTIL FURTHER NOTICE.

4. COMMENT: THIS LATEST SPAT IN THE GOP'S ERRATIC EFFORTS TO WOO THE PRIVATE SECTOR ONCE AGAIN DEMONSTRATES THE PITFALLS INHERENT IN ITS ATTEMPT TO BE ALL THINGS TO ALL PEOPLE. WHILE A ROLLBACK IN BEER PRICES MAY REINVIGORATE THE GOVERNMENT'S FLAGGING POPULIST IMAGE, IT ALSO SERVES AS A REMINDER TO THE POTENTIAL INVESTOR OF THE UN-

PREDICTABLE NATURE OF THE BUSINESS ENVIRONMENT IN WHICH
HE IS ASKED TO OPERATE. IN AN INTERESTING JUXTAPOSITION,
LOCAL PRESS ALSO CARRIED REPORTS ON FEBRUARY 2 THAT AN
ISSUE OF GOVERNMENT BONDS WITH A GUARANTEED INTEREST RATE
OF 10 PERCENT WAS SUBSCRIBED BY LOCAL INVESTORS IN LESS
THAN TWO DAYS. THIS SHOULD PROVIDE A CLEAR SIGNAL TO THE
GOP THAT INVESTORS PREFER A GUARANTEED RETURN ON A SAFE
INVESTMENT TO COMMITTING FUNDS IN BUSINESS VENTURES SUB-
JECT TO THE WHIMS OF THE GOP.
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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